

CITY OF CHEROKEE
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2 - 3
Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 4 - 5
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B 6 - 7
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	C 8
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	D 9
Fiduciary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements, and Change in Cash Balance	E 10
Notes to Financial Statements	11 - 21
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	22 - 23
Notes to Required Supplementary Information - Budgetary Reporting	24
Other Supplementary Information:	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Governmental Funds	1 25 - 26
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Proprietary Funds	2 27
Schedule of Indebtedness	3 28 - 29
Note Maturities	4 30 - 31
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5 32 - 33
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34 - 35
Schedule of Findings	36 - 38

CITY OF CHEROKEE
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mark Murphy	Mayor	January 2014
Linda Burkhart	Council Member, Mayor Pro-Tem	January 2012
Greg Stieneke (partial year)	Council Member	January 2012
Wayne Pingel (partial year)	Council Member	January 2012
Jim Peck	Council Member	January 2012
Mick Mallory	Council Member	January 2014
Dan Morrow	Council Member	January 2014
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component units required to be discretely presented totaling \$438,653, \$-0-, \$438,653, \$71,559, and \$324, respectively, have not been reported.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity

with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component units of the City of Cherokee, Iowa, as of June 30, 2011, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund for the primary government of the City of Cherokee at June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2012 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 22 through 24 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Winkler, Starnes & Co., LLP

February 6, 2012

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$1,256,542	\$ 33,544	\$ 7,500	
Public works	617,035		514,063	
Culture and recreation	790,994	139,254	17,075	
Community and economic development	9,349			
General government	91,052			
Debt service	1,518,384			\$ 17,224
Capital projects	764,547			
Total governmental activities	5,047,903	172,798	538,638	17,224
Business-type activities:				
Water	638,834	894,144		
Sewer	1,109,910	1,077,226		75,000
Landfill	152,539	148,812		
Solid waste	251,147	257,927		
Storm water	4,696	81,430		
Total business-type activities	2,157,126	2,459,539		75,000
TOTAL	\$7,205,029	\$2,632,337	\$ 538,638	\$ 92,224
General Receipts:				
Property taxes and other city tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Hotel/motel tax				
Grants and contributions not restricted to specific purpose				
Unrestricted investment interest				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets - beginning of year .				
Cash basis net assets - end of year				
Cash basis net assets:				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Debt service				
Streets				
Employee benefits				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$(1,215,498)		\$(1,215,498)
(102,972)		(102,972)
(634,665)		(634,665)
(9,349)		(9,349)
(91,052)		(91,052)
(1,501,160)		(1,501,160)
(764,547)		(764,547)
<u>(4,319,243)</u>		<u>(4,319,243)</u>
	\$ 255,310	255,310
	42,316	42,316
	(3,727)	(3,727)
	6,780	6,780
	<u>76,734</u>	<u>76,734</u>
	<u>377,413</u>	<u>377,413</u>
<u>(4,319,243)</u>	<u>377,413</u>	<u>(3,941,830)</u>
1,631,065		1,631,065
187,847		187,847
451,578		451,578
494,448		494,448
72,342		72,342
4,124		4,124
37,982	2,337	40,319
2,564,724	144,000	2,708,724
207,111	15,551	222,662
<u>126,950</u>	<u>(126,950)</u>	
<u>5,778,171</u>	<u>34,938</u>	<u>5,813,109</u>
1,458,928	412,351	1,871,279
<u>2,062,987</u>	<u>432,374</u>	<u>2,495,361</u>
<u>\$3,521,915</u>	<u>\$ 844,725</u>	<u>\$4,366,640</u>
\$ 141,927		\$ 141,927
97,443	\$ 41,145	138,588
2,512,431		2,512,431
43,336		43,336
135,647		135,647
167,323		167,323
<u>423,808</u>	<u>803,580</u>	<u>1,227,388</u>
<u>\$3,521,915</u>	<u>\$ 844,725</u>	<u>\$4,366,640</u>

See Notes to Financial Statements

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

		Special Revenue		
	General	Road Use	Employee Benefits	Local Option Sales Tax
RECEIPTS:				
Property tax	\$1,011,046		\$524,807	
Tax increment financing				
Other city taxes	167,554			
Licenses and permits	16,584			\$ 494,448
Use of money and property	14,797		102	5,414
Intergovernmental	20,638	\$514,063		
Charges for service	160,338			
Special assessments				
Miscellaneous	<u>137,144</u>	<u>40,737</u>	<u>53,627</u>	<u>56,029</u>
TOTAL RECEIPTS	<u>1,528,101</u>	<u>554,800</u>	<u>578,536</u>	<u>555,891</u>
DISBURSEMENTS:				
Operating:				
Public safety	936,122		318,779	
Public works		471,943	89,851	
Culture and recreation	656,457		106,707	
Community and economic development	6,000			
General government	271,081		70,540	
Debt service				
Capital projects				323,319
TOTAL DISBURSEMENTS	<u>1,869,660</u>	<u>471,943</u>	<u>585,877</u>	<u>323,319</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(341,559)</u>	<u>82,857</u>	<u>(7,341)</u>	<u>232,572</u>
OTHER FINANCING SOURCES (USES):				
Bond proceeds	430,000			1,832,868
Operating transfers in	250,569	26,305	18,481	
Operating transfers out	<u>(82,174)</u>	<u>(71,531)</u>		<u>(250,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>598,395</u>	<u>(45,226)</u>	<u>18,481</u>	<u>1,582,868</u>
NET CHANGE IN CASH BALANCES	256,836	37,631	11,140	1,815,440
CASH BALANCES - BEGINNING OF YEAR, AS RESTATED	<u>62,294</u>	<u>1,581</u>	<u>32,196</u>	<u>657,779</u>
CASH BALANCES - END OF YEAR	<u>\$ 319,130</u>	<u>\$ 39,212</u>	<u>\$ 43,336</u>	<u>\$2,473,219</u>
CASH BASIS FUND BALANCES:				
Nonspendable - Cemetery perpetual care				
Restricted for:				
Debt service				
Streets		\$ 39,212		\$2,473,219
Employee benefits			\$ 43,336	
Capital projects				
Other purposes				
Unassigned	<u>\$ 319,130</u>			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 319,130</u>	<u>\$ 39,212</u>	<u>\$ 43,336</u>	<u>\$2,473,219</u>

Exhibit B

Capital Projects	Debt Service	Total Nonmajor Governmental Funds	Total
	\$ 451,578		\$1,987,431
		\$ 187,847	187,847
			662,002
			16,584
\$ 15,858	674	1,137	37,982
		3,937	538,638
			160,338
	17,224		17,224
<u>175,941</u>	<u>13,720</u>	<u>25,268</u>	<u>502,466</u>
<u>191,799</u>	<u>483,196</u>	<u>218,189</u>	<u>4,110,512</u>
1,641			1,256,542
97,086			658,880
		27,830	790,994
3,349			9,349
			341,621
537,500	980,884		1,518,384
<u>440,676</u>		<u>552</u>	<u>764,547</u>
<u>1,080,252</u>	<u>980,884</u>	<u>28,382</u>	<u>5,340,317</u>
<u>(888,453)</u>	<u>(497,688)</u>	<u>189,807</u>	<u>(1,229,805)</u>
301,856			2,564,724
65,281	542,610		903,246
<u>(51,230)</u>		<u>(321,361)</u>	<u>(776,296)</u>
<u>315,907</u>	<u>542,610</u>	<u>(321,361)</u>	<u>2,691,674</u>
(572,546)	44,922	(131,554)	1,461,869
<u>708,193</u>	<u>52,521</u>	<u>440,804</u>	<u>1,955,368</u>
<u>\$ 135,647</u>	<u>\$ 97,443</u>	<u>\$ 309,250</u>	<u>\$3,417,237</u>
		\$ 141,927	\$ 141,927
	\$ 97,443		97,443
			2,512,431
			43,336
\$ 135,647			135,647
		167,323	167,323
			<u>319,130</u>
<u>\$ 135,647</u>	<u>\$ 97,443</u>	<u>\$ 309,250</u>	<u>\$3,417,237</u>

See Notes to Financial Statements

CITY OF CHEROKEE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 7)	\$3,417,237
---	-------------

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	104,678
--	---------

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$3,521,915</u>
---	--------------------

NET CHANGE IN CASH BALANCES (Page 7)	\$1,461,869
--	-------------

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	<u>(2,941)</u>
--	----------------

CHANGE IN CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$1,458,928</u>
---	--------------------

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service	\$965,983	\$1,197,663	\$488,169	\$2,651,815	
Use of money and property	1,718	402	217	2,337	\$ 181
Miscellaneous	2,489	88,062		90,551	7,298
TOTAL OPERATING RECEIPTS	<u>970,190</u>	<u>1,286,127</u>	<u>488,386</u>	<u>2,744,703</u>	<u>7,479</u>
OPERATING DISBURSEMENTS:					
Business-type activities	<u>710,673</u>	<u>853,667</u>	<u>408,382</u>	<u>1,972,722</u>	<u>10,420</u>
TOTAL OPERATING DISBURSEMENTS	<u>710,673</u>	<u>853,667</u>	<u>408,382</u>	<u>1,972,722</u>	<u>10,420</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>259,517</u>	<u>432,460</u>	<u>80,004</u>	<u>771,981</u>	<u>(2,941)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Bond proceeds		144,000		144,000	
Debt service		(376,680)		(376,680)	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)		<u>(232,680)</u>		<u>(232,680)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	259,517	199,780	80,004	539,301	(2,941)
Transfers - net	<u>(48,679)</u>	<u>(68,431)</u>	<u>(9,840)</u>	<u>(126,950)</u>	
NET CHANGE IN CASH BALANCES	210,838	131,349	70,164	412,351	(2,941)
CASH BALANCES - BEGINNING OF YEAR	<u>462,122</u>	<u>(100,655)</u>	<u>70,907</u>	<u>432,374</u>	<u>107,619</u>
CASH BALANCES - END OF YEAR	<u>\$672,960</u>	<u>\$ 30,694</u>	<u>\$141,071</u>	<u>\$ 844,725</u>	<u>\$104,678</u>
CASH BASIS FUND BALANCES:					
Restricted for debt service		\$ 41,145		\$ 41,145	
Unrestricted	<u>\$672,960</u>	<u>(10,451)</u>	<u>\$141,071</u>	<u>803,580</u>	<u>\$104,678</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$672,960</u>	<u>\$ 30,694</u>	<u>\$141,071</u>	<u>\$ 844,725</u>	<u>\$104,678</u>

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH BALANCE
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2011

	Agency Fund Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR	\$ (334)
RECEIPTS:	
Property tax	16,822
Miscellaneous	17,234
TOTAL RECEIPTS	<u>34,056</u>
DISBURSEMENTS:	
To other governments	<u>33,722</u>
CASH BALANCE - END OF YEAR	<u><u>\$ -</u></u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Cherokee Community Foundation, Cherokee Volunteer Fire Department Foundation, and Cherokee Public Library Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with U.S. generally accepted accounting principles as they relate to the exclusion of the component units.

Cherokee Community Foundation, Cherokee Volunteer Fire Department Foundation, and Cherokee Public Library Foundation are considered component units of the City of Cherokee, since these entities provide fundraising activities to benefit programs and projects of the City. Financial statements of these entities are not separately prepared.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, as such, are reported as an agency fund of the City.

B. Basis of Presentation

Government-Wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax allocation from the State of Iowa to be used for road construction.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance.

C. Measurement Focus and Basis of Accounting

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in restricted spendable classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works, community and economic development, general government, and debt service functions.

F. Subsequent Events

Management has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2011.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue notes and bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes/Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 910,000	\$161,380	\$ 768,000	\$135,186	\$1,678,000	\$ 296,566
2013	915,000	133,757	278,000	102,030	1,193,000	235,787
2014	795,000	115,480	290,000	93,690	1,085,000	209,170
2015	820,000	99,176	299,000	84,990	1,119,000	184,166
2016	480,000	79,305	309,000	76,020	789,000	155,325
2017 - 2021	1,545,000	225,821	1,716,000	234,450	3,261,000	460,271
2022 - 2026	555,000	28,956	464,000	29,520	1,019,000	58,476
2027 - 2031			45,000	4,170	45,000	4,170
Total	<u>\$6,020,000</u>	<u>\$843,875</u>	<u>\$4,169,000</u>	<u>\$760,056</u>	<u>\$10,189,000</u>	<u>\$1,603,931</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Capital Lease Purchase Agreement

The City has entered into a capital lease purchase agreement to lease a dump truck with historical cost of \$64,724. The following is a schedule of the future minimum lease payments, including interest at a rate of 4% per annum.

<u>Year Ending June 30</u>	<u>Total</u>
2012	\$ 34,318
2013	<u>34,318</u>
TOTAL	<u>\$ 68,636</u>

Revenue Notes/Bonds

The City has pledged future aquatic center pledge receipts to repay \$1,650,000 in aquatic center revenue bonds issued in February 2007. Proceeds from the bonds provided financing for construction of a new aquatic center. The bonds are payable solely from aquatic center pledge receipts and are payable through 2012. Annual principal and interest payments on the bonds are expected to require 100% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$525,000. For the current year, principal and interest paid from the Capital Projects Fund and total pledge receipts were \$537,500 and \$15,858, respectively.

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$5,704,000 in sewer revenue bonds issued in 1999, 2002, and 2011. Proceeds from the bonds provided financing for sewer system improvements. The bonds are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 87% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,404,056. For the current year, principal and interest paid and total customer net receipts were \$376,680 and \$432,460, respectively.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

At June 30, 2011, the balance of the bond and interest sinking fund is \$41,145.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$109,480, \$99,308, and \$90,175, respectively, equal to the required contributions for each year.

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer retiree health plan which provides medical/prescription drug benefits for employee and retirees. There are no retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Contributions are required for retiree coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The city currently finances the retiree benefit plan on a pay-as-you-go basis. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from \$464 for single coverage to \$1,424 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City made no contributions to the retiree benefit plan.

6. COMPENSATED ABSENCES

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is \$233,656.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2011.

7. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$152,539 by the City. This amount is based on a percentage of total population within the county.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Local Option Sales Tax	\$250,000
	Special Revenue: Urban Renewal TIF	256,380
	Capital Projects	<u>36,230</u>
Total Transfers to Debt Service		<u>542,610</u>
Capital Projects	Special Revenue: Road Use	35,000
	General	<u>30,281</u>
Total Transfers to Capital Projects		<u>65,281</u>
Sewer	Special Revenue: Urban Renewal TIF	<u>64,981</u>
Water	Proprietary: Sewer	<u>22,421</u>
General	Capital Projects	15,000
	General	51,893
	Special Revenue: Road Use	36,531
	Proprietary: Water	71,100
	Proprietary: Sewer	66,205
	Proprietary: Solid waste	7,983
	Proprietary: Landfill	<u>1,857</u>
Total Transfers to General		<u>250,569</u>
Road Use	Sewer	<u>26,305</u>
Employee Benefits	Sewer	<u>18,481</u>
Total		<u><u>\$990,648</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$1,000 during the year ended June 30, 2011.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

10. RISK MANAGEMENT

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2011 were \$112,887.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

10. RISK MANAGEMENT - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, and lift station in flood area. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. LOANS RECEIVABLE

At June 30, 2011, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%.	\$ 7,042
Headlines - \$10,000 loan on May 1, 2008, payable in 120 monthly payments of \$111.02, including interest at 6%.	<u>7,672</u>
TOTAL	<u>\$ 14,714</u>

12. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2011:

<u>Fund</u>	<u>Deficit Balance June 30, 2011</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Proprietary:			
Landfill	\$ (3,443)	Increase in expenditures	Increase revenues
Solid waste	\$ (3,098)	Increase in expenditures	Reduce spending

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

13. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

14. COMMITMENT

At June 30, 2011, the City had construction contracts for the infrastructure projects totaling approximately \$2,171,093 of which approximately \$1,687,290 remained outstanding.

15. SUBSEQUENT EVENTS

In November 2011, the City issued \$245,000 of general obligation notes for a urban renewal project. The City also entered into construction contracts for \$197,738 for infrastructure projects.

16. ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>General</u>	<u>Hotel/Motel</u>
Balances - June 30, 2010, as previously reported	\$ 64,397	\$ (2,103)
Change in fund type classification per implementation of GASB Statement No. 54.	<u>(2,103)</u>	<u>2,103</u>
Balances - July 1, 2010, as restated	<u>\$ 62,294</u>	<u>\$ 0</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$1,987,431		
Tax increment financing collections	187,847		
Other city taxes	662,002		
Licenses and permits	16,584		
Use of money and property	37,982	\$ 2,518	\$ 181
Intergovernmental	538,638		
Charges for service	160,338	2,651,815	
Special assessments	17,224		
Miscellaneous	<u>502,466</u>	<u>97,849</u>	<u>7,298</u>
TOTAL RECEIPTS	<u>4,110,512</u>	<u>2,752,182</u>	<u>7,479</u>
DISBURSEMENTS:			
Public safety	1,256,542		
Public works	658,880		
Culture and recreation	790,994		
Community and economic development	9,349		
General government	341,621		
Debt service	1,518,384		
Capital projects	764,547		
Business-type activities		<u>1,983,142</u>	<u>10,420</u>
TOTAL DISBURSEMENTS	<u>5,340,317</u>	<u>1,983,142</u>	<u>10,420</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,229,805)	769,040	(2,941)
OTHER FINANCING SOURCES - NET	<u>2,691,674</u>	<u>(359,630)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	1,461,869	409,410	(2,941)
BALANCES - BEGINNING OF YEAR	<u>1,955,368</u>	<u>539,993</u>	<u>107,619</u>
BALANCES - END OF YEAR	<u>\$3,417,237</u>	<u>\$ 949,403</u>	<u>\$ 104,678</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$1,987,431	\$1,933,373	\$ 1,933,373	\$ 54,058
187,847	184,665	184,665	3,182
662,002	809,471	809,471	(147,649)
16,584	16,530	16,530	54
40,319	38,336	38,336	1,983
538,638	566,018	634,908	(96,270)
2,812,153	3,132,681	3,132,681	(320,528)
17,224	88,000	88,000	(70,776)
593,017	844,219	1,151,604	(558,587)
<u>6,855,215</u>	<u>7,613,293</u>	<u>7,989,568</u>	<u>(1,134,353)</u>
1,256,542	938,386	1,265,952	9,410
658,880	645,007	645,007	(13,873)
790,994	827,469	899,920	108,926
9,349	5,350	5,350	(3,999)
341,621	341,196	341,196	(425)
1,518,384	1,032,982	1,032,982	(485,402)
764,547	2,540,056	2,766,807	2,002,260
<u>1,972,722</u>	<u>3,140,178</u>	<u>3,165,986</u>	<u>1,193,264</u>
<u>7,313,039</u>	<u>9,470,624</u>	<u>10,123,200</u>	<u>2,810,161</u>
(457,824)	(1,857,331)	(2,133,632)	1,675,808
<u>2,332,044</u>	<u>2,131,327</u>	<u>3,990,968</u>	<u>(1,658,924)</u>
1,874,220	<u>\$ 273,996</u>	<u>\$ 1,857,336</u>	<u>\$ 16,884</u>
<u>2,387,742</u>			
<u>\$4,261,962</u>			

CITY OF CHEROKEE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund, and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$652,576. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works, community and economic development, general government, and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue		
	Urban Renewal TIF	Revolving Loan	Library Memorial
RECEIPTS:			
Tax increment financing	\$187,847		
Use of money and property		\$ 157	\$ 20
Intergovernmental			3,937
Miscellaneous	<u>2,250</u>	<u>3,442</u>	<u>12,109</u>
TOTAL RECEIPTS	<u>190,097</u>	<u>3,599</u>	<u>16,066</u>
DISBURSEMENTS:			
Governmental activities:			
Culture and recreation			12,738
Capital projects	<u>552</u>		
TOTAL DISBURSEMENTS	<u>552</u>		<u>12,738</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	189,545	3,599	3,328
OPERATING TRANSFERS OUT	<u>(321,361)</u>		
NET CHANGE IN CASH BALANCES	(131,816)	3,599	3,328
CASH BALANCES - BEGINNING OF YEAR, AS RESTATED	<u>163,048</u>	<u>83,588</u>	<u>8,111</u>
CASH BALANCES - END OF YEAR	<u>\$ 31,232</u>	<u>\$ 87,187</u>	<u>\$ 11,439</u>
CASH BASIS FUND BALANCES:			
Nonspendable - Cemetery perpetual care			
Restricted for other purposes	<u>\$ 31,232</u>	<u>\$ 87,187</u>	<u>\$ 11,439</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 31,232</u>	<u>\$ 87,187</u>	<u>\$ 11,439</u>

Schedule 1

<u>Parks & Recreation Capital Improvements</u>	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total</u>
		\$187,847
\$ 75	\$ 885	1,137
		3,937
<u>5,947</u>	<u>1,520</u>	<u>25,268</u>
<u>6,022</u>	<u>2,405</u>	<u>218,189</u>
11,850	3,242	27,830
		552
<u>11,850</u>	<u>3,242</u>	<u>28,382</u>
(5,828)	(837)	189,807
		<u>(321,361)</u>
(5,828)	(837)	(131,554)
<u>43,293</u>	<u>142,764</u>	<u>440,804</u>
<u>\$ 37,465</u>	<u>\$141,927</u>	<u>\$309,250</u>
<u>\$ 37,465</u>	<u>\$141,927</u>	<u>\$141,927</u>
		167,323
<u>\$ 37,465</u>	<u>\$141,927</u>	<u>\$309,250</u>

CITY OF CHEROKEE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds			
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:				
Charges for service	\$148,812	\$257,927	\$ 81,430	\$488,169
Use of money and property			217	217
TOTAL OPERATING RECEIPTS	<u>148,812</u>	<u>257,927</u>	<u>81,647</u>	<u>488,386</u>
OPERATING DISBURSEMENTS:				
Business type activities	<u>152,539</u>	<u>251,147</u>	<u>4,696</u>	<u>408,382</u>
TOTAL OPERATING DISBURSEMENTS	<u>152,539</u>	<u>251,147</u>	<u>4,696</u>	<u>408,382</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(3,727)	6,780	76,951	80,004
TRANSFERS - NET	<u>(1,857)</u>	<u>(7,983)</u>		<u>(9,840)</u>
NET CHANGE IN CASH BALANCES	(5,584)	(1,203)	76,951	70,164
CASH BALANCES - BEGINNING OF YEAR	<u>2,141</u>	<u>(1,895)</u>	<u>70,661</u>	<u>70,907</u>
CASH BALANCES - END OF YEAR	<u>\$ (3,443)</u>	<u>\$ (3,098)</u>	<u>\$147,612</u>	<u>\$141,071</u>
CASH BASIS FUND BALANCES:				
Unrestricted	<u>\$ (3,443)</u>	<u>\$ (3,098)</u>	<u>\$147,612</u>	<u>\$141,071</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ (3,443)</u>	<u>\$ (3,098)</u>	<u>\$147,612</u>	<u>\$141,071</u>

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2011

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	\$ 400,000	\$ 295,000
Essential corporate purpose (street sweeper)	11-01-06	4.75%	150,000	68,000
Essential corporate purpose (fire rescue truck)	7-01-08	2.70 - 4.00%	595,000	490,000
Essential corporate purpose	6-01-09	1.35 - 4.125%	945,000	710,000
2010 refunding loan	3-10-10	.85 - 2.65%	2,830,000	2,830,000
2011 capital loan	4-01-11	1.50 - 3.55%	2,500,000	
TOTAL				<u>\$4,393,000</u>
Revenue Notes:				
Sewer	9-30-99	3.00%	\$2,170,000	\$1,410,000
Sewer	5-04-11	3.00%	144,000	
Sewer	6-19-02	3.00%	3,390,000	2,370,000
Aquatic center	2-02-07	5.00%	1,650,000	<u>1,000,000</u>
TOTAL				<u>\$4,780,000</u>

Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ 35,000	\$ 260,000	\$ 13,035	
	33,000	35,000	3,230	
	55,000	435,000	17,865	
	155,000	555,000	17,814	
	595,000	2,235,000	53,940	
<u>\$2,500,000</u>	<u> </u>	<u>2,500,000</u>	<u> </u>	<u> </u>
<u>\$2,500,000</u>	<u>\$873,000</u>	<u>\$6,020,000</u>	<u>\$105,884</u>	<u>\$ </u>
	\$103,000	\$1,307,000	\$ 42,300	
\$ 144,000		144,000	1,650	
	152,000	2,218,000	71,100	
<u> </u>	<u>500,000</u>	<u>500,000</u>	<u>37,500</u>	<u> </u>
<u>\$ 144,000</u>	<u>\$755,000</u>	<u>\$4,169,000</u>	<u>\$152,550</u>	<u>\$ </u>

CITY OF CHEROKEE
NOTE MATURITIES
JUNE 30, 2011

General Obligation Notes

<u>Miscellaneous Projects</u>						
<u>Year Ending June 30,</u>	<u>Issued 3-10-2010</u>		<u>Issued 8-15-2006</u>		<u>Issued 11-01-2006</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2012	1.30%	\$ 620,000	4.30%	\$ 40,000	4.75%	\$ 35,000
2013	1.60%	625,000	4.35%	40,000		
2014	1.85%	440,000	4.40%	40,000		
2015	2.25%	450,000	4.45%	45,000		
2016	2.65%	100,000	4.50%	45,000		
2017			4.60%	50,000		
2018						
2019						
2020						
2021						
2022						
2023						
TOTAL		<u>\$2,235,000</u>		<u>\$260,000</u>		<u>\$ 35,000</u>

<u>Revenue Notes</u>						
<u>Year Ending June 30,</u>	<u>Sewer Issued 9-30-99</u>		<u>Sewer Issued 6-19-02</u>		<u>Aquatic Issued 2-02-07</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2012	3.00%	\$ 107,000	3.00%	\$ 156,000	5.00%	\$500,000
2013	3.00%	112,000	3.00%	161,000		
2014	3.00%	118,000	3.00%	166,000		
2015	3.00%	122,000	3.00%	171,000		
2016	3.00%	127,000	3.00%	176,000		
2017	3.00%	132,000	3.00%	181,000		
2018	3.00%	138,000	3.00%	187,000		
2019	3.00%	144,000	3.00%	192,000		
2020	3.00%	150,000	3.00%	198,000		
2021	3.00%	157,000	3.00%	204,000		
2022			3.00%	210,000		
2023			3.00%	216,000		
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
TOTAL		<u>\$1,307,000</u>		<u>\$2,218,000</u>		<u>\$500,000</u>

See Accompanying Independent Auditors' Report

Miscellaneous Projects						
Issued 7-01-2008		Issued 6-01-2009		Issued 4-01-2011		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
3.35%	\$ 55,000	2.00%	\$160,000			\$ 910,000
3.45%	60,000	2.35%	190,000			915,000
3.55%	60,000	3.00%	30,000	1.50%	\$ 225,000	795,000
3.70%	60,000	3.30%	35,000	1.90%	230,000	820,000
3.85%	65,000	3.50%	35,000	2.10%	235,000	480,000
3.95%	65,000	3.75%	35,000	2.40%	240,000	390,000
4.00%	70,000	4.00%	35,000	2.60%	245,000	350,000
		4.125%	35,000	2.80%	250,000	285,000
				3.00%	255,000	255,000
				3.15%	265,000	265,000
				3.30%	275,000	275,000
				3.55%	280,000	280,000
	<u>\$435,000</u>		<u>\$555,000</u>		<u>\$2,500,000</u>	<u>\$6,020,000</u>

Sewer Issued 5-24-11

Interest Rates	Amount	Total
3.00%	\$ 5,000	\$ 768,000
3.00%	5,000	278,000
3.00%	6,000	290,000
3.00%	6,000	299,000
3.00%	6,000	309,000
3.00%	6,000	319,000
3.00%	6,000	331,000
3.00%	7,000	343,000
3.00%	7,000	355,000
3.00%	7,000	368,000
3.00%	7,000	217,000
3.00%	7,000	223,000
3.00%	8,000	8,000
3.00%	8,000	8,000
3.00%	8,000	8,000
3.00%	8,000	8,000
3.00%	9,000	9,000
3.00%	9,000	9,000
3.00%	9,000	9,000
3.00%	<u>10,000</u>	<u>10,000</u>
	<u>\$144,000</u>	<u>\$4,169,000</u>

CITY OF CHEROKEE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST NINE YEARS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
RECEIPTS:			
Property and other city tax	\$2,649,433	\$2,582,070	\$2,261,960
Tax increment financing	187,847	280,549	218,619
Licenses and permits	16,584	15,669	26,537
Use of money and property	37,982	46,864	97,953
Intergovernmental	538,638	523,803	765,607
Charges for service	160,338	175,524	140,477
Special assessments	17,224	17,242	18,272
Miscellaneous	<u>502,466</u>	<u>490,343</u>	<u>521,807</u>
 TOTAL REVENUES	 <u>\$4,110,512</u>	 <u>\$4,132,064</u>	 <u>\$4,051,232</u>
 DISBURSEMENTS:			
Public safety	\$1,256,542	\$ 853,192	\$1,345,016
Public works	658,880	826,921	665,083
Culture and recreation	790,994	775,285	757,638
Community and economic development	9,349	4,920	1,641
General government	341,621	332,516	345,061
Debt service	1,518,384	1,526,802	2,113,371
Capital projects	<u>764,547</u>	<u>18,543</u>	<u>291,658</u>
 TOTAL EXPENDITURES	 <u>\$5,340,317</u>	 <u>\$4,338,179</u>	 <u>\$5,519,468</u>

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$2,206,233	\$2,135,270	\$2,115,269	\$1,980,336	\$2,073,806	\$1,976,920
202,182	205,308	170,779	221,297	203,467	225,979
28,364	25,777	27,469	25,519	27,128	24,229
132,896	163,893	193,391	133,901	88,240	88,156
567,671	887,099	487,336	528,684	1,184,756	695,258
171,005	101,431	59,620	69,978	82,648	75,819
36,770	25,830	52,077	225,640	24,633	46,920
<u>679,773</u>	<u>1,358,900</u>	<u>567,434</u>	<u>370,588</u>	<u>1,204,605</u>	<u>427,510</u>
<u>\$4,024,894</u>	<u>\$4,903,508</u>	<u>\$3,673,375</u>	<u>\$3,555,943</u>	<u>\$4,889,283</u>	<u>\$3,560,791</u>
\$ 870,531	\$ 922,236	\$ 935,557	\$ 842,842	\$ 825,650	\$ 851,784
761,497	738,554	486,313	629,256	475,612	1,332,189
1,345,196	680,192	909,802	686,449	672,576	887,527
12,361	635	1,777	6,944	99,075	115,244
230,641	303,901	295,914	285,331	288,555	304,447
1,283,427	983,395	1,192,475	2,161,195	4,033,976	2,273,282
<u>139,788</u>	<u>3,032,922</u>	<u>211,407</u>	<u>169,650</u>	<u>2,984,197</u>	<u> </u>
<u>\$4,643,441</u>	<u>\$6,661,835</u>	<u>\$4,033,245</u>	<u>\$4,781,667</u>	<u>\$9,379,641</u>	<u>\$5,764,473</u>

WINTHER, STAVE & Co., LLP
Certified Public Accountants

1316 West 18th Street
P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
FAX 712-262-3159

1004 21st Street #4
P.O. Box 187
Milford, Iowa 51351
Phone 712-338-2488
FAX 712-338-2510

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated February 6, 2012. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cherokee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as describe in the accompany Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as Item I-A-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cherokee, and other parties to whom the City of Cherokee may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winter, Starn & Co., LLP

February 6, 2012

CITY OF CHEROKEE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements

Internal Control Deficiency:

I-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that custody of receipts, preparation of bank deposits, and posting of cash receipts to the cash receipts journal can be done by the same individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider our control procedures.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Statutory Reporting

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works, community and economic development, general government, and debt service functions. In addition, disbursements in the public safety and public works functions exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-11 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year.

- II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Statutory Reporting - Continued

II-G-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-11 Revenue Notes - The City has complied with various water and sewer revenue note resolutions.

II-I-11 Financial Condition - The following funds had a deficit balance at June 30, 2011:

Proprietary	- Landfill
	- Solid waste

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response - The deficits are expected to be eliminated as follows:

Proprietary	- Landfill	Increase revenues
	- Solid waste	Reduce spending

Conclusion - Response accepted.